

806 KAR 13:120. Workers' compensation deductible policies.

RELATES TO: KRS 304.13-057, 304.13-167, 304.13-400-304.13-420

STATUTORY AUTHORITY: KRS 304.2-110, 304.13-410

NECESSITY, FUNCTION, AND CONFORMITY: KRS 304.2-110 authorizes the commissioner to make reasonable administrative regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code, KRS 304.1-010. KRS 304.13-410 requires the commissioner to promulgate administrative regulations concerning calculations for premium reductions for deductible workers' compensation insurance policies. This administrative regulation establishes the method of calculating premium reductions for workers' compensation insurance policies with deductibles.

Section 1. Definition. "Commissioner" is defined in KRS 304.1-050(1).

Section 2. All insurers authorized to write workers' compensation insurance in Kentucky, when establishing the premium for a workers' compensation insurance policy with a deductible ranging from \$100 to \$10,000 shall use only the following deductibles: \$100, \$200, \$300, \$400, \$500, \$1,000, \$1,500, \$2,500, \$5,000, \$7,500, \$10,000.

Section 3. Application of this Administrative Regulation. (1) General.

(a) This administrative regulation shall apply to all insurers and licensed advisory organizations introducing or revising workers' compensation insurance deductible discounts for policies with deductibles of \$100 to \$10,000 or their application in Kentucky.

(b) A licensed advisory organization filing shall be self-contained and fully documented and shall not simply adopt the deductible plan or factors of another filing.

(c) An insurer may:

1. File a self-contained and fully documented deductible discount plan; or
2. Adopt the filed deductible plan and discounts of a licensed advisory organization or another insurer.

(2) Form of the deductible. The deductible discounts shall be determined by the multiplication of the deductible discount factors by the manual premiums. Separate deductible discounts for each deductible option shall be applicable for each hazard group as defined by the advisory organization designated by the commissioner pursuant to KRS 304.13-167.

(3) Experience and retrospective rating. Experience rating modifications shall be based on losses net of deductibles and manual premiums less the deductible discount. The parameters of the experience rating plan shall also be adjusted to account for the deductible.

(4) Premium discount programs. For insurers that have a premium discount program based on the standard premium of a policy, the deductible discounts shall be applied prior to the application of premium discounts. The deductible discount shall be calculated by multiplying the discount factor by the manual premium. Premium discounts then are calculated based on the standard premium, after deductibles.

Section 4. Deductible Discount Provisions. The deductible discount shall recognize the reduction in losses borne by the insurer as a result of the insured's selection of a deductible. The deductible discount shall be calculated based on a loss elimination ratio and shall include the following adjustments:

- (1) The size of loss distribution including distribution including an analysis of historical data which shall determine a mathematical function or a discrete empirical distribution table;
- (2) Recognition of factors which imply additional costs or savings associated with the de-

deductible including:

(a) Credit risks that the insured will not repay the insurer for the deductible amount;

(b) Changes in insurer cash flow:

1. Deductibles paid by an insurer in accordance with KRS 304.13-400(3)(a) shall be considered a loan, the effects of which may be recognized in the filing; and

2. This factor shall be equal to the amount or proportion of dollars that are eliminative by the deductible times a reasonable interest rate to account for the loss in investment income

(c) Adverse selection and higher levels of risk.

1. Loss elimination ratios may be reduced for adverse selection by up to five (5) percent.

2. Filings which include greater reductions shall be clearly supported by actuarial evidence of higher loss ratios by deductible and class to clearly show that the deductible discounts are consistently high across classes and time.

3. For the initial filing, data from other states with deductibles may be used to support the selection of this factor; and

(3) Recognition that many insurer operating expenses are not reduced by the introduction of deductibles including:

(a) Loss adjustment expenses including allocated and unallocated expenses;

(b) Overhead expenses; and

(c) General expenses including all expenses incurred other than loss adjustment expense, commissions, other acquisition expenses, premium taxes, licenses, and fees.

Section 5. Effect on Rate Making. (1) Data. The designated advisory organization's statistical plan shall include a field indicating the deductible on the policy. Financial data calls shall segregate data by deductible.

(2) Gross versus net data. Adjustments to net data shall be made in the rate-making process to account for the presence of deductibles. Losses shall be loaded by the loss elimination ratio, adjusted for anti-selection to a gross basis prior to the rate-making process. The loss elimination ratio and antiselection factor shall be the same as in the current approved filing.

(3) Methodology. Rate-making methods shall be modified to account for the presence of deductibles. An adjustment shall be made in classification rate making for differences in the distribution of exposures by deductible among classes. in the trending procedure for the presence of a shift in the distribution by deductible. (19 Ky.R. 1982; 2260; eff. 5-10-1993; TAm eff. 8-9-2007; 37 Ky.R. 1557; 2007; eff. 3-4-2011; Crt eff. 2-26-2020.)